

Message Text

CONFIDENTIAL

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ACTION SS-25

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FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC PRIORITY 5531

INFO AMEMBASSY BONN

AMEMBASSY PARIS

AMEMBASSY LONDON

AMEMBASSY ROME

C O N F I D E N T I A L EC BRUSSELS 3975

EXDIS

C O R R E C T E D C O P Y (TO MRN LINE EC BRUSSELS VICE
BRUSSELS)

PASS TREASURY AND FRB

E.O. 11652: GDS

TAGS: EFIN, EEC

SUBJECT: POSSIBLE EC COMMISSION REACTION TO MONETARY
SITUATION

1. SUMMARY. EC COMMISSION CONTACTS HAVE TOLD US IN STRICT
CONFIDENCE THAT THE COMMISSION IS CONSIDERING POSSIBLE CONTINGENCY
PLANS AT THE COMMUNITY LEVEL SHOULD THE MONETARY SITUATION CONTINUE
TO DETERIORATE (I.E., SHOULD THE DOLLAR CONTINUE TO DEPRECIATE).
IN ADDITION, THE FRENCH ARE REPORTEDLY PRESSING FOR A COMMUNITY
RESPONSE TO THE DOLLAR'S DECLINE AND THE ALLEDED FAILURE OF THE
US TO REACT IN A MEANINGFUL WAY. OUR SOURCES EMPHASIZE THAT THE
CURRENT COMMISSION EXERCISE IS OF A CONTINGENCY NATURE ONLY AND
THAT IT IS UNLIKELY TO BE PUSHED FORWARD UNLESS THE PRESENT
SITUATION DETERIORATES. END SUMMARY.

2. ACCORDING TO OUR SOURCES, THE COMMISSION IS UNDER CONSIDERABLE
PRESSURE FROM THE FRENCH TO TAKE SOME INITIATIVE IN THE FACE OF THE
DOLLAR'S PERSISTENT DECLINE. WE ARE TOLD THE FRENCH HAVE GONE
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SO FAS AS TO CRITICIZE EC COMMISSION VICE PRESIDENT (ECONOMIC AND

FINANCIAL AFFAIRS) HAERKAMP AND HIS STAFF FOR BEING INSUFFICIENTLY CRITICAL OF THE US. THE SORTS OF MEASURES THE FRENCH ARE SAID TO HAVE IN MIND ARE VARIABLE IMPORT TAXES DESIGNED TO COMPENSATE FOR THE DEPRECIATION OF THE DOLLAR. (WE DOUBT THAT THIS CONCEPT HAS BEEN THOUGHT THROUGH; WE HAVE BEEN GIVEN NO DETAILS ABOUT IT.) WE ARE ALSO TOLD IN STRICT CONFIDENCE THAT, EXCEPT FOR PRESIDENT ORTOLI AND VICE PRESIDENT HENRI SIMONET, THE COMMISSION MEMBERS HAVE THUS FAR EXPRESSED STRONG OPPOSITION TO ANY SUCH MOVE.

3. THE INITIATIVES BEING DISCUSSED IN THE COMMISSION ARE BOTH POLITICAL AND TECHNICAL. UNDER THE "POLITICAL" HEADING, SHOULD THE MONETARY SITUATION LEAD TO THE COLLAPSE OF THE EC SNAKE, THE COMMISSION MIGHT CONSIDER PROPOSING A QUALITATIVE "LEAP FORWARD" TOWARDS ECONOMIC AND MONETARY UNION. SUCH A MOVE MIGHT INVOLVE ADVANCING THE TIMETABLE FOR INCREASING SHORT-TERM MONETARY SUPPORT AND PARTIAL POOLING OF RESERVES, EXPANDING THE ROLE OF THE EC CURRENCY UNIT (UNIT OF ACCOUNT), STRENGTHENING THE REGIONAL FUND, AND, POSSIBLY, CALLING FOR AN EC SUMMIT CONFERENCE. OUR CONTACTS TELL US THAT COMMISSION OFFICIALS, THOUGH FULLY AWARE THAT SUCH PROPOSALS ARE LIKELY TO FIND SCANT SUPPORT AMONG THE MEMBER STATES, BELIEVE, NONETHELESS, THAT THE COMMISSION MUST BE SEEN TO BE TRYING TO COPE WITH THE SITUATION.

4. ON A MORE TECHNICAL LEVEL, THE COMMISSION'S MONETARY EXPERTS ARE AGAIN CONSIDERING POSSIBLE WAYS TO RESTRICT UNWANTED SHORT-TERM CAPITAL INFLOWS WITHOUT AT THE SAME TIME INHIBITING CAPITAL MOVEMENTS WITHIN THE COMMUNITY AND BEING FORCED TO ESTABLISH ELABORATE NEW ADMINISTRATIVE CONTROLS. ANOTHER STEP UNDER DISCUSSION WOULD BE A FIRM PROPOSAL THAT THE US AND THE COMMUNITY WORK TOGETHER TO ACHIEVE AS SOON AS POSSIBLE SOME FORM OF CONSOLIDATION OF THE DOLLAR OVERHANG INVOLVING ISSUANCE BY THE US OF LONG-TERM LOW INTEREST DEBT INSTRUMENTS.

5. OUR SOURCES HAVE STRESSED TO US THAT THE ABOVE IDEAS ARE BEING DISCUSSED AT THE WORKING LEVEL IN THE FRAMEWORK OF CONTINGENCY PLANNING. THEY ARE NOT LIKELY TO BE PUSHED FORWARD IN THE NEAR FUTURE SHOULD THE MONETARY SITUATION, POSSIBLY AS A RESULT OF CENTRAL BANK INTERVENTION, SHOW SIGNS OF STABILITY WITH ATTENDANT FIRMING OF THE DOLLAR.

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